# ILRI Investment Policy

April 2017

Reviewed in 2019 with no changes

# ILRI Investment Policy

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| Authors: | ▪ Chief Financial Officer | Board committee: | Finance |
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| Lead manager responsible for operational delivery: | ▪ Chief Financial Officer | Version: | 2.0 |
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## Revision history

| Version No. | Effective date | Approved by and date | Summary of changes | Next scheduled review |
|---|---|---|---|---|
| 2.0 | April 2017 | ILRI BoT<br>April 2017 | 2017: This investment policy was elaborated by merging existing (but dated) ILRI and CGIAR policies and adding new essential clauses to make it more practical and explain how risks are being mitigated. Revised in 2019 with no changes. | 2 years or as needed |

## Related documents

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|---|---|
| Global framework: | IFRS 7 - Financial Instruments: Disclosures<br>IAS 21 - The effects of changes in foreign Exchange Rates. |
| CGIAR framework/policy<br>ILRI framework | CGIAR Investment Policy Guidelines, Version 3, September 2013. |
| ILRI policy(ies): | N/A |
| ILRI Procedures | N/A |
| **Other relevant documents** | N/A |
| **Appendix** | Annex: Values of the ranges of concentration risk as determined by the IC in the IMC of March 2017 |

# Contents

# 1 Objective of this policy

The investment policy of the International Livestock Research Institute (ILRI) reflects the objectives, principles and guidelines which the Institute Management Committee and the board of trustees consider appropriate for the day-to-day management of the institute's investments given the nature, origin and purpose of ILRI's funding.

The policy is set and approved by the board of trustees in order to:

1. Define and assign responsibilities of all parties involved in the investment decision-making process.
2. Establish a clear understanding of investment objectives by all parties.
3. Establish appropriate performance benchmarks for evaluating investment results.
4. Ensure the institute's funds are managed in accordance with prudent standards and best practices.

### Common objectives of investment

The overall philosophy is that investment decisions shall always prioritize preservation of capital ahead of optimizing investment returns. Generation of income to fund expenditure, whilst attractive, is of secondary importance to the preservation of capital and maintenance of appropriate liquidity. This is expressed in five main objectives below:

1. *Preservation of capital*: this should be a priority to investment returns for any investment or to any other objective of any investment.
2. *Preservation of purchasing power*: the investment should be prudently managed to maintain its real value and avoid risk of substantive nominal losses as a result of inflation.
3. *Maintaining adequate liquidity*: investments should remain sufficiently liquid to enable funding of all reasonably anticipated cash needs.
4. *Delivering competitive returns*: each investment class should be managed with the objective of obtaining the highest possible level of income consistent with the prevailing market rate of return and the low risk scenario set out by the institute.
5. *Ensuring diversification of assets*: investments should be diversified as much as possible to eliminate risk of loss from an over concentration in a specific institution, issuer, maturity, security or class of securities. Investments shall be spread across at least two acceptable institutions.

# 2 Common investment principles

## 2.1 Investment portfolio strategy

The investment strategy shall define the nature of financial instruments, tenure of investment and issuers or financial institutions.

a) Financial instruments: types of investments
   This policy describes which investment types are acceptable (see 2.3) and which are prohibited (see 2.4).
b) Tenure of investment: investment periods shall range from instruments with overnight maturity to those whose maturity is not more than four years.

c) Issuers and financial institutions: the Board recognizes that the security of ILRI's investments depends on the stability of the financial institutions in which funds are placed. Funds shall therefore be placed only with financial institutions of ratings and nature approved by the board of trustees (see section 5).

## 2.2 Concentration risk

Concentration risk is the risk suffered due to lack of diversification arising from investing too heavily in one geographical location, financial institution, currency and investment type. To mitigate the concentration risk, the Investment Committee (IC) sets several ratios and ranges for the finance team to operate within. The IC can change these ratios and ranges when needed in accordance with the market conditions but will have to report all deviations and changes to the board of trustees. The following ratios will be set (see Annex for the values as of March 2017):

a) The average ratio of total cash held in the Kenyan vs overseas financial markets on an annual basis.

b) Percentage range of local investments (of total cash).

c) Maximum percentage of the total investment that is deposited in a single financial institute in a given period.

d) Percentage range of cash that will be held in each investment type.

e) Percentage rate per currency.

## 2.3 Acceptable types of investments

All investment assets should be registered in the official name of ILRI and should not form part of the assets of the custodian, investment manager, broker or held in accounts that hold assets for other entities.

The acceptable types of investment are:

a) Current accounts.
b) Certificates of deposits and savings accounts.
c) Government bonds and treasury bills—ensure an internal review process is carried out and formally documented by the institute.
d) Common investment vehicles or 'funds' will be done only in well-regulated jurisdictions. These include Australia, Canada, the EU, Hong Kong, Japan, Singapore, Switzerland or USA, and specifically exclude hedge funds.

## 2.4 Prohibited types of investments

1. All financial investments in illiquid assets such as buildings, property for speculative purposes, gems and art or structured investments (unless capital protected by institutions with excellent credit ratings).
2. Purchase of non-negotiable securities in the equity and fixed income asset classes or mutual funds containing any such securities.
3. Use of derivative securities that are not for hedging transactions.
4. Private placements.

5. Direct holdings of individual equities unless in certain circumstances such as donations and bequests or capital assets held for the use of the institute where the donor has explicitly allowed this type of investment in order to maximize potential returns.
6. Commodity or futures trading, except through mutual funds where the trading objective is to preserve principal.
7. Short selling, stock lending, borrowing and leveraging whether in cash or through derivatives.
8. Any investment or action with respect to an investment not expressly allowed is prohibited unless presented to and approved by the board of trustees.

# 3 Parties to investment decision-making process and their responsibilities

a) The board of trustees (see 3.1)
b) The Investment Committee (see 3.2)
c) Chief Financial Officer (CFO) supervised by the Chief Operating Officer (COO) (see 3.3)

## 3.1 Responsibilities of the board of trustees

The investment policy is ultimately the responsibility of the board of trustees which function as the governing fiduciary body on behalf of key stakeholders. The Board is responsible for:

a) Recognizing their fiduciary position of trust in relation to management of financial assets on behalf of key stakeholders.
b) Ensuring that appropriate board and management skills are available to make informed investment decisions.
c) Establishing the process by which investment decisions are made and the staff are held accountable for decision making.
d) Approving the institute’s investment policy and its broad investment strategies.
e) Approving the use of new financial institutes, investment vehicles and types if there’s significant variation as reported by the Director General (DG) to the board chair and executive committee.
f) Overseeing the institute’s investing activities to ensure that they are managed prudently and in accordance with the overarching CGIAR investment policy guidelines.
g) Delegating certain responsibilities to professional experts and corporate bodies in various fields.
h) Ensure that management, staff and board members disclose any conflicts of interest to the DG and/or board chair respectively, and that no official receives financial or non-financial benefit in connection with any aspect of investment decisions.

## 3.2 Responsibilities of the Investment Committee

The Investment Committee (IC) is made up of the Institute Management Committee (IMC) composed of all the institute’s directors; and the Chief Financial Officer. The IC shall be responsible to the board of trustees for:

a) Supervising the implementation of decisions of the board of trustees.
b) Reviewing investment activities to ensure compliance with ILRI and CGIAR policy.

c) Recommending selection of professional experts and corporate bodies in various fields and monitoring and evaluating their performance.
d) Approving the selection of professional advisors to provide general and specific advice to the institute from time to time as may be required.
e) Determining the ratios and ranges of 2.2 and adapting these according to market circumstances.
f) Reporting any changes and deviations from ratios and ranges of 2.2 to the board of trustees in a bi-annual report to the Board.
g) Discussing the investment portfolio, and proposed changes thereof, regularly in IC (minimum two times per year).
h) Supervising the operations of the service providers.
i) Considering proposed revisions to the investment policy and recommending any changes to the Board.
j) Continually monitoring investments in its capacity as the Investment Committee and if there is any significant variation, the DG will inform the board chair who will, if appropriate, raise the issue with the executive committee and subsequently the full board.
k) Providing the Board and the Internal Audit Unit (IAU) with an annual attestation of compliance with the investment policy. This could be included in the bi-annual board report.
l) Carrying out any other duties as directed by the board of trustees.

## 3.3 Responsibilities delegated to the Chief Financial Officer and Chief Operating Officer by the IC

a) Ensuring that ILRI cash resources are centralized to the extent possible.
b) Day-to-day management of the institute's investment portfolio within the guidelines set by the investment policy and the ranges set out in 2.2 (All actual transfers must be authorized by the relevant signatories as per the authorization policy; one signatory being either the COO or the DG).
c) Coordinating and monitoring continuously the performance of the various external entities involved in ILRI's investment activities.
d) Coordinating investment meetings including those with the IC and the Board.
e) Providing the IC with an investment status report on a semi-annual basis (or more frequently when requested by IC).
f) Providing the board of trustees with semi-annual investment status report (or more frequently when requested by the Board).
g) Providing the IC and board of trustees with advice on changes in the portfolio, financial institutions, or this policy.
h) Reviewing annually the credit ratings and general health of financial institutions that the institute invests with and providing a report to the IC.
i) Exchanging information and best practice with other CGIAR centres worldwide and similar organizations based in Kenya.

# 4 Risk profile of the investment strategy

ILRI recognizes that any financial investment is prone to various risks such as market, credit, liquidity, horizon, concentration, reinvestment and inflation among others.

ILRI guards itself from the following major risks through the outlined avenues.

## 4.1 Market risk (specifically currency risk)

As ILRI's official reporting currency is the US dollar (USD), investments shall be largely in USD. Investments in British Pounds, Euros and Kenya Shillings shall be made by the Head of Finance and Supply Chain, within the ratios mentioned in 2.2e after consideration of ILRI's assets and liabilities in those currencies, and forecasts of interest and exchange rates over the term of the proposed investments.

ILRI shall also revalue the bank balances quarterly for assets classes held in other currencies other than USD to recognize exchange losses and gains.

Another market risk taken into consideration is political uncertainty or civil unrest.

## 4.2 Liquidity and credit risk

ILRI shall carry out annual bank evaluation exercises with its financial institutions to determine if the banks where investments are held are financially sound and stable. The criteria for measuring these two risks is detailed in section 5.

## 4.3 Concentration risk

ILRI shall hold diversified portfolio of a mix of various classes of assets for various tenures and in various regions and financial institutions in the proportions defined in section 2.2c.

## 4.4 Inflation risk

ILRI shall hold predetermined ranges of the total cash in current accounts in a given period to mitigate the risk of loss of purchasing power in operational cash. (see 2.2d)

ILRI shall endeavour to hold investments in classes that offer protection against inflation such as fixed deposit accounts.

# 5 Criteria for evaluating investment instrument and results

New investment instruments and financial institutes will be approved by the board of trustees. The criteria and guidelines for recommendations are detailed in the following sections.

## 5.1 National rating agencies

For financial institutions in countries where ILRI has substantial operations and which provide a favorable and safe investment and banking environment, credit ratings of not less than B- using independent credible rating agencies such as Moody's, Standard & Poor's, and Fitch shall be acceptable. Where credit ratings are not available, preference shall be given to the top 5 banks in the country as rated using performance ratings—capital adequacy, asset quality, management quality, earnings and liquidity. Other information such as non-performing assets as a percentage of total deposits, profitability, size, clientele, reputation and rankings as published by respectable dailies, magazines or journals shall also be considered.

Annual bank evaluations shall be carried out using parameters that measure the soundness of the institute's financial institutions. The ratings for the parameters to be used in evaluating local banks shall be performance ratings popularly known are CAMELs ratings, which are capital adequacy, asset quality, management quality, earnings and liquidity.

The benchmark ratings are indicated below as provided by the Central Bank of Kenya (CBK).

| **Criteria** | **Min/max rating as per CBK** |
|---|---|
| Capital adequacy | >=14.50% |
| Asset quality | <=15.00% |
| Management quality | <=3.4 |
| Earnings | >=1% |
| Liquidity | >=20% |

## 5.2 International rating agencies

In addition, credit ratings for the following internationally recognized agencies will be applied to the annual evaluation process for European and American banks, and African banks with such rating.

a) Standard & Poor's

The lowest applicable long-term issuer's credit risk rating should be A.
The lowest applicable short-term issuer's credit risk rating should be B.

b) Moody's

The lowest applicable long-term issuer's credit risk rating should be A3.
The lowest applicable short-term issuer's global short-term rating should be P-3.

c) Fitch

The lowest applicable long-term issuer's credit risk rating should be BBB.
The lowest applicable short-term issuer's credit risk rating should be F3.

**Government bonds and treasury bills*:*** Stability of the issuer rated as high investment grade by trustworthy credit rating agencies and credible journals like the Economist shall be acceptable. Government bills and bonds belonging to ILRI's host countries will also be acceptable for investment purposes.

# 6 Performance benchmarks

The following benchmark indices shall be used to assess and evaluate the overall performance of the following asset classes. ILRI shall also benchmark investments against those of other CGIAR centres where possible.

| **Asset class** | **Index benchmark** |
|---|---|
| Kenyan Shilling denominated cash, demand or time deposits | Average call or fixed deposit rates over the evaluation period for the top five banks in the country in terms of size |
| US dollar deposit,<br><br>Euro deposit | $ Libor 3–month<br><br>€ Libor 3–month |

| | |
|---|---|
| British Pound deposit | £ Libor 3–month |
| Local fixed income securities | Average 91-day or 182-day treasury bill rate over the evaluation period and the Central Bank's Rate |
| International fixed income securities | Citigroup world government bond index |

# 7 Annex

Values of the ranges of concentration risk as determined by the IC in the IMC of March 2017

a) The average ratio of total cash held in the Kenyan* vs overseas financial markets on annual basis is 70:30.

b) Percentage range of local investments (of total cash) can fluctuate within 50:85.

c) Maximum percentage of the total investments that is deposited in a single financial institute at any given moment is 35%. The annual average of a single institute should not exceed 30%.

d) Percentage range of cash that will be held in each investment type is15:35% for current accounts, 65–85% for deposits and saving accounts and zero for others.

e) Percentage rage per currency is 70–95% for USD. No limits set for other currencies.

*Note: These values can change at any time by decision of the IC. Any changes will be documented in IMC minutes and reported to the board of trustees.

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ILRI thanks all donors and organizations which globally support its work through their contributions to the CGIAR Trust Fund

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